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## When it Comes to Top HR Leadership Success, It's a Matter of Both Timing and Tempo: A Look at the Effects of CEO Tenure and Style on the Bottom Line

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## Abstract

[Excerpt] For decades, human resource strategists have relied on HR theorists and researchers to generate insights to help them hone their craft. For much of this time the focus has been on defining and refining an HR strategy – a bundle of integrated HR activities – that would help firms attain their business goals. The product of these efforts, often referred to as a high commitment human resource (HCHR) system (or sometimes a high performance work system), contains the following elements: the careful selection of employees, well-developed internal labor markets, high levels of workforce autonomy and participation, significant investments in training and development, and financial (often teambased) incentives. Research has shown that the power of HCHR systems lies in their capacity to create and enhance employee-based resources (attributes and behaviors) that contribute to the attainment of competitive advantage in the marketplace and, thus, to superior financial returns.

Recently, HR theorists have come to recognize that while the path from HCHR system to employee-based resources to firm performance is important, there might be ways to enhance its effects even further. One approach, they suggest, is to assure that line managers have the capabilities they need to properly deploy and utilize the carefully crafted configurations of employee-based resources that a well-designed HCHR system delivers. Studies focusing on financial and physical resources suggest that this may be the case. Thus far, though, this notion has not been tested using employee-based resources.

## Keywords

HR, leadership, leadership and development, L&D, management training, CEO, tenure, culture, high commitment, HCHR, transformation, transformational leadership

## Disciplines

Benefits and Compensation | Performance Management | Training and Development

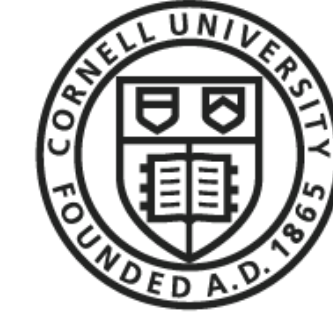
## Comments

### Recommended Citation

Collins, C. (2019, February). *When it comes to top HR leadership success, it's a matter of both timing and tempo: A look at the effects of CEO tenure and style on the bottom line* (CAHRS ResearchLink No. 1). Ithaca, NY: Cornell University, ILR School, Center for Advanced Human Resource Studies.



# CAHRS ResearchLink



ILR School

No. 1 February 2019

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### The Challenge

For decades, human resource strategists have relied on HR theorists and researchers to generate insights to help them hone their craft. For much of this time the focus has been on defining and refining an HR strategy – a bundle of integrated HR activities – that would help firms attain their business goals. The product of these efforts, often referred to as a high commitment human resource (HCHR) system (or sometimes a high performance work system), contains the following elements: the careful selection of employees, well-developed internal labor markets, high levels of workforce autonomy and participation, significant investments in training and development, and financial (often team-based) incentives. Research has shown that the power of HCHR systems lies in their capacity to create and enhance employee-based resources (attributes and behaviors) that contribute to the attainment of competitive advantage in the marketplace and, thus, to superior financial returns.

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# The Study

This study aimed to fill these voids in the research. One purpose was to determine the extent to which two intervening employee-based resources – firm-specific experience (tenure) and employee collaboration – strengthen the relationship between the HCHR system and firm performance. The second purpose was to determine the extent to which the capacity of leaders to make effective use of employee-based resources makes a difference in this context. The third purpose was to look at the full picture to discern a broad set of guidelines for HR strategists and line managers whose task it is to make the best possible use of their firms' human resources in pursuit of higher levels of firm performance.

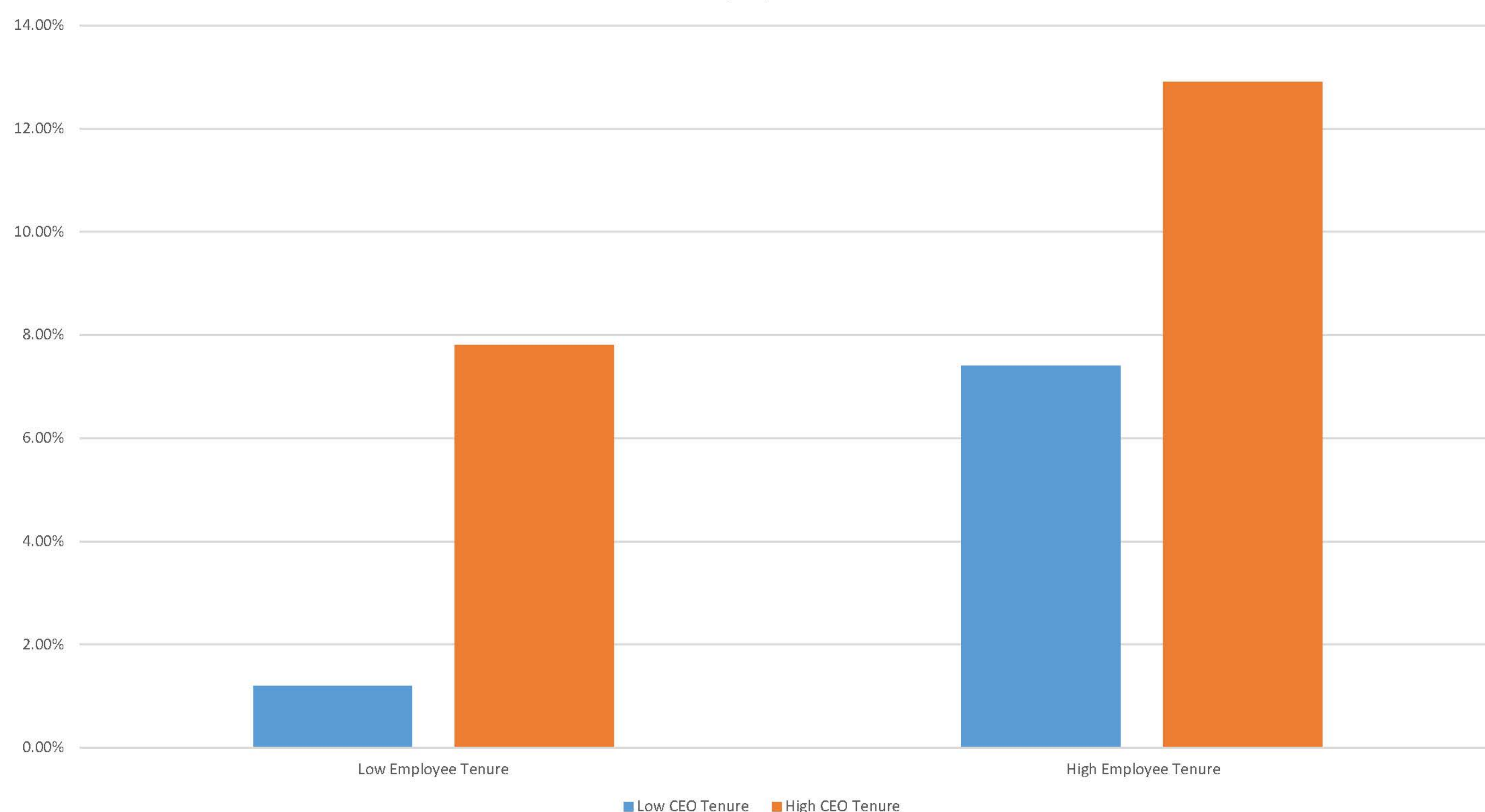
Data were collected via a survey conducted in 234 small firms in four major industries: manufacturing (71), professional services (57), technical services (54), and construction (52). Between 11 and 29 core employees in each firm completed a questionnaire pertaining to their firms' HR activities, as well as their firm-level experience and the degree of collaboration in their work units. In addition, CEOs of 187 of these firms provided sales data covering a two-year period, along with the number of years they had held the CEO position in their current firms and the extent to which they adhered to a transformational style of leadership.

## The Major Results

Across the firms studied:

- As expected, there was no direct significant relationship between an index of HCHR practices and firm performance (measured as year-over-year revenue growth).
- There were, however, significant positive relationships between the index of HCHR practices and both measures of employee-based resources – employee firm-specific experience (tenure) and employee collaboration – and significant positive relationships between both measures of employee-based resources and firm performance.
- Not surprisingly, then, there were indirect significant positive relationships between the index of HCHR practices and firm performance through both measures of employee-based resources. That is, organization's HCHR practices did make a difference, but only when they were crafted and administered in a way that enhanced the retention (tenure) of employees and encouraged on-the-job collaboration among these employees.
- Even when firms' HCHR systems were successful in delivering longer-tenured employees, however, the capacity of leaders to

# Figure 1: Company Sales Growth, CEO Tenure, and Employee Tenure

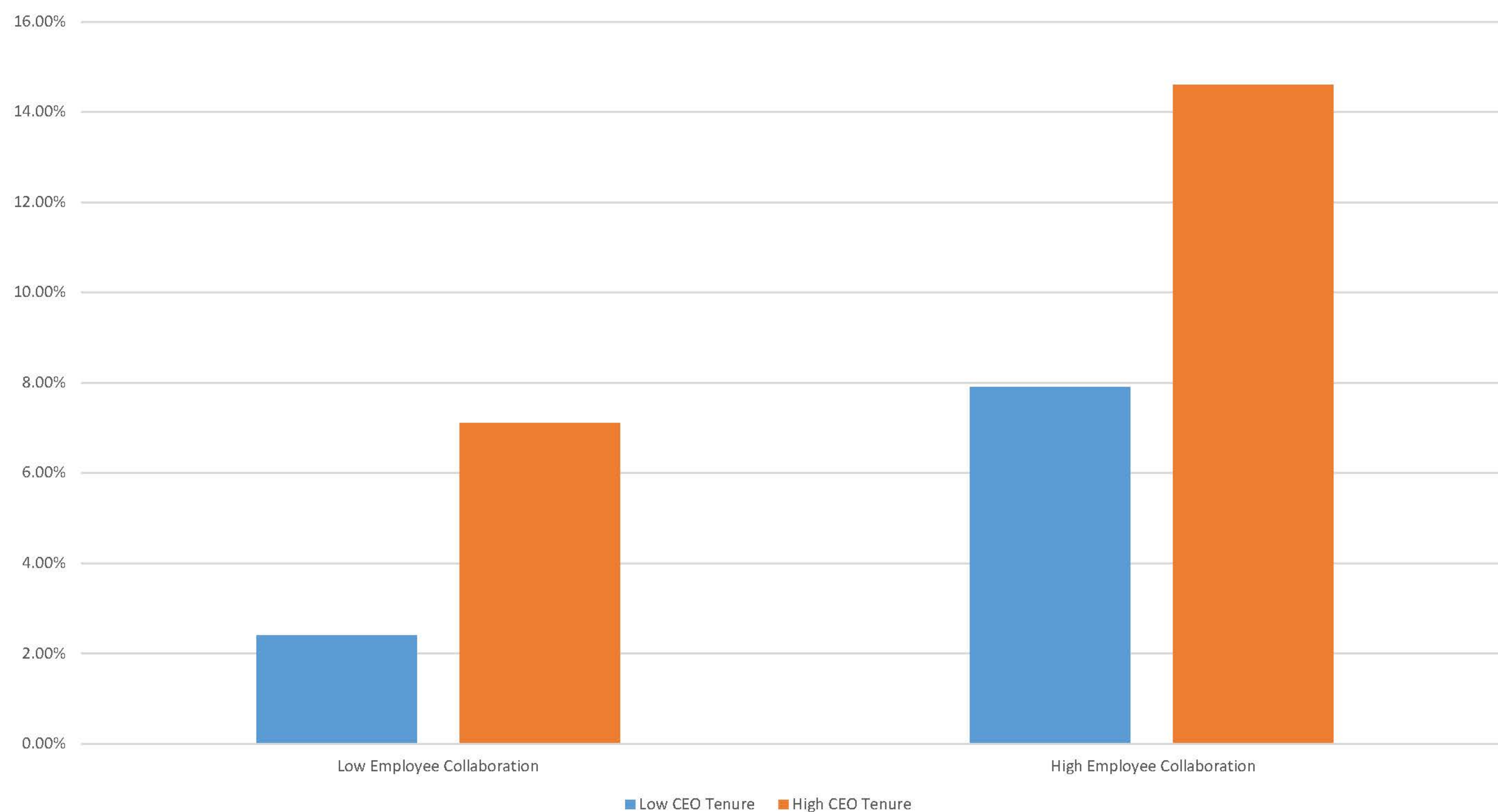


make effective use of this talent made a major difference with respect to firm performance. In this situation, as shown in Figure 1 above, more senior managers used employees' accrued knowledge and skills to generate a much greater jump in firm sales (13%) than less senior managers were able to muster (about 8%). When HCHR systems produced more collaborative employees, the gap in increased revenues across the firms of more- and less-experienced managers was of nearly the same magnitude (see Figure 2 on page 4). Note, however, that the differentiator was the interaction between employee-based attributes and behaviors on the one hand and managerial experience on the other. When HCHR systems failed to deliver the requisite human capital (left side of Figures 1 & 2), experienced managers still outperformed their less senior counterparts; nonetheless their firms failed to experience revenue increases anywhere near those generated in firms blessed with both valuable employee-based resources and longer-tenured managers.

- The results with respect to leaders who did and did not adhere to a transformational leadership style were much the same (see Figures 3 and 4). When the HCHR system delivered more experienced and more collaborative employees, revenue increases in firms led by transformational leaders outpaced those of firms led by non-transformational leaders by 50% or more. Again, the interaction between the HCHR systems and the leadership style made the difference. When the HCHR systems failed to deliver the requisite human capital, revenue increases failed to approach the levels attained under the opposite condition irrespective of the style of leadership employed by those at the top.



Figure 2: Company Sales Growth, CEO Tenure, and Employee Collaboration



## Implications For Practice

The broader lesson here: It paid off when firms did their homework. Those that did were able to tailor their HCHR practices in ways that developed the essential employee-based resources that, in turn, led to greater growth in the marketplace. Those that didn't do this, however, relied on more generic – or at least less firm-specific – HCHR practices that failed to deliver the employee-based resources required to compete effectively and grow.

The second and more revelatory implication of this study pertains to the role of leadership. A second-order of business for those in charge of HR strategy is to assure that organizational leaders have the capacity fully to utilize the employee-based resources entrusted to their care. Again, this takes some work because, as the present study shows, this process must be firm specific as well. In the organizations studied here, it would make sense to adopt policies and practices designed to keep firm leaders in their positions for the longer term because their enhanced firm specific knowledge helps them do a better job of utilizing the experience garnered by their employees, as well as to foster greater collaboration in their work units. In turn, these firms would focus their limited leadership development resources on relatively inexperienced managers, primarily to help them adopt a more transformational leadership style and perhaps develop other skills that would help foster higher levels of collaboration among their employees.

Figure 3: Company Sales Growth, CEO Transformational Leadership, and Employee Tenure

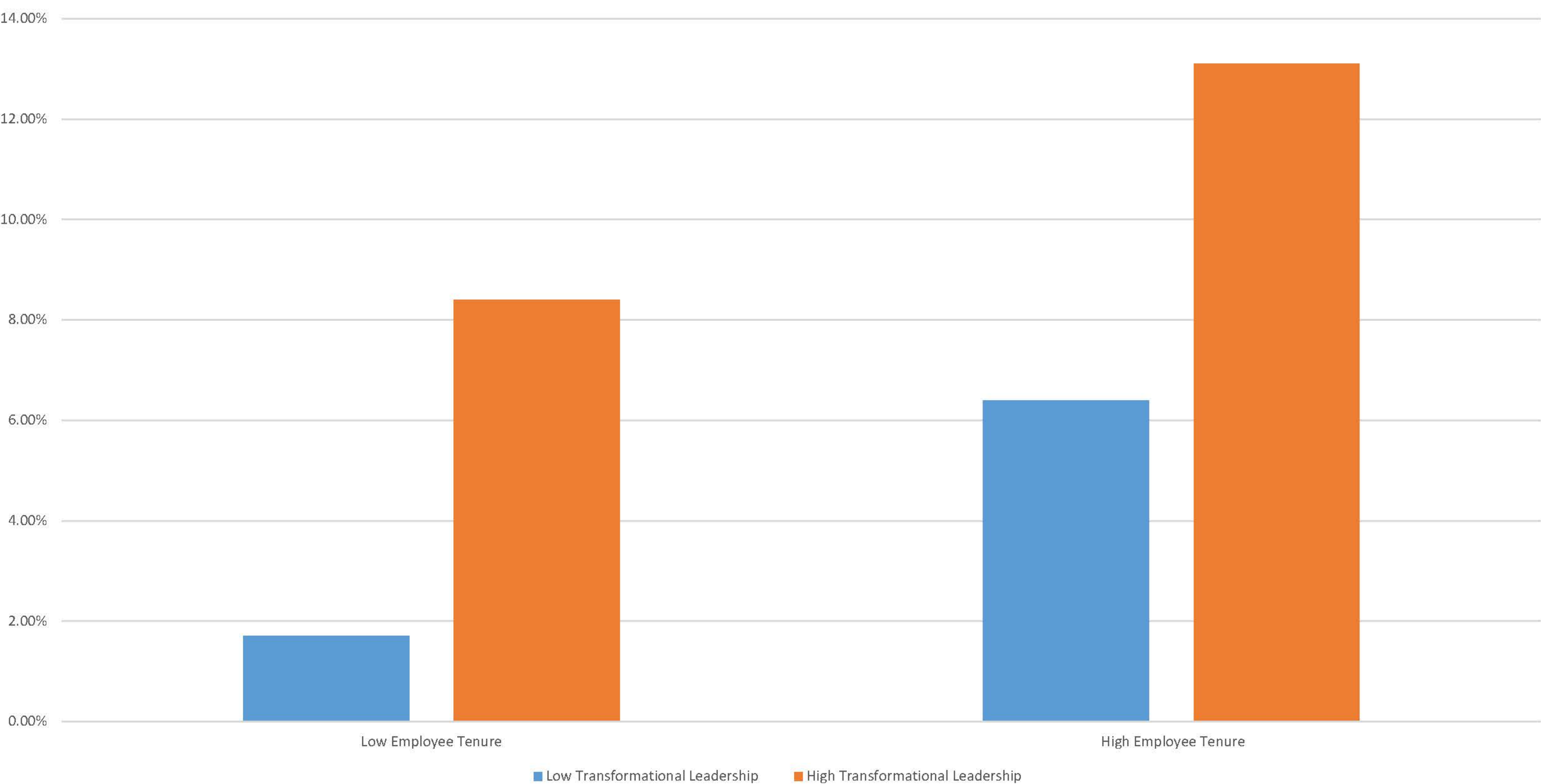
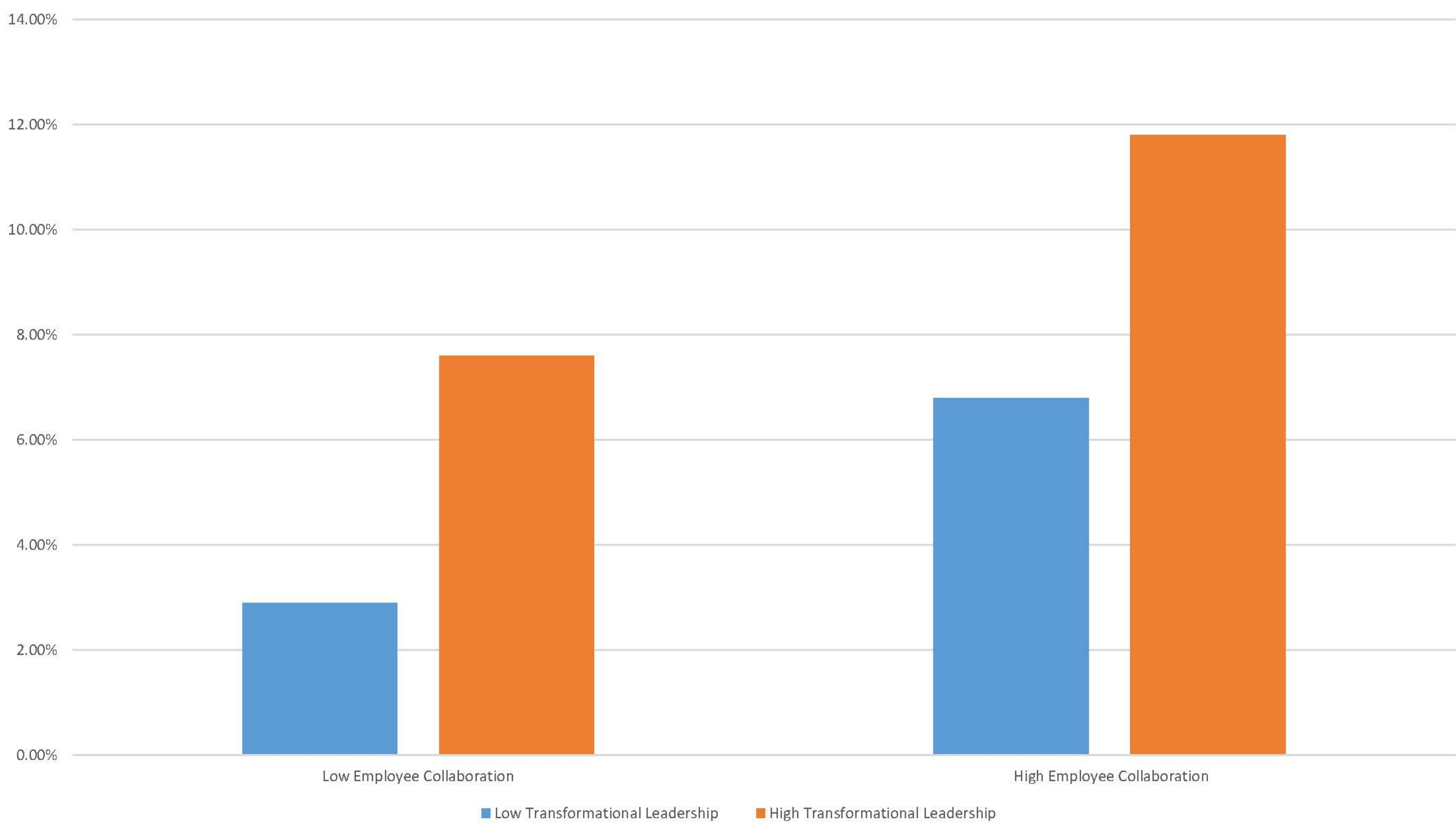


Figure 4: Company Sales Growth, CEO Transformational Leadership, and Employee Collaboration



# Conclusion

The results of this study provide further evidence that the first task of HR strategists is to develop HCHR systems that create configurations of employee-based resources (attributes and behaviors) that directly contribute to the attainment of organizational goals. The results further suggest, however, that even when this challenging task is accomplished, the job isn't done. A second order of business is to assure that line managers have the attributes and engage in the behaviors necessary to effectively utilize the valuable human resources that are entrusted to their care.

Both tasks are contextual. That is, it is up to each firm to determine the configuration of employee-based resources that best fits its particular business needs and then to adapt its HCHR system accordingly. Similarly, it is likely that there will be firm-to-firm variations in the attributes and behaviors leaders must have to do their part. The present study showed that tenure in position was a very important attribute while transformational leadership style was a somewhat effective behavior. But this was in the context of a study involving many small firms operating in four different industries. It is unclear whether these results would hold up in firm-by-firm studies involving larger enterprises in the same or different industries.

Herein lies an opportunity. CAHRS companies may find themselves in situations where it is necessary to identify configurations of employee-based resources, as well as leader attributes and behaviors that might be right for their particular circumstances, and then conduct follow-on research to determine whether their predilections prove correct. When these situations arise, we urge the HR strategists involved to partner with CAHRS researchers who not only have the expertise to do these types of studies, but also the capacity to carry them out in timely manner at minimal cost.

## Researcher



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